

THE ADMINISTRATION OF EXPORT CONTROLS

INTERIM REPORT

OF THE

INVESTIGATIONS SUBCOMMITTEE OF THE COMMITTEE ON EXPENDITURES IN THE EXECUTIVE DEPARTMENTS

PURSUANT TO

S. Res. 189

(80th Congress)

A RESOLUTION AUTHORIZING THE COMMITTEE ON
EXPENDITURES IN THE EXECUTIVE DEPART-
MENTS TO CARRY OUT CERTAIN DUTIES



December 18, 1948.—Submitted, under authority of the order of the
Senate of June 19, 1948, by Mr. Ferguson

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Mr. FERGUSON, from the Investigations Subcommittee of the Senate
Committee on Expenditures in the Executive Departments, sub-
mitted the following

INTERIM REPORT

[Pursuant to S. Res. 189, 80th Cong.]

INTRODUCTION

The failure to maintain adequate export controls at this time can have extremely harmful effects upon our national security and domestic economy. The national security aspects of our export control program are of transcendent importance, particularly in view of the present activities of the Soviet Union and its satellites, however the economic phases of the export control program are also important. It must be realized that the unprecedented postwar worldwide demand for American goods exerts a direct and significant impact on our domestic economy. Exports from the United States in the year 1947 reached a new high of almost 15.3 billion dollars, more than tripling the prewar figure for 1940 and far exceeding the average for the past 25 years. Indications are that in 1948 exports will be less than in 1947 although exceeding prewar average. Exports, if not adequately controlled, may cause serious economic dislocations in this country by accentuating acute domestic shortages and adding to the inflationary spiral. It is the purpose of our present export control program to strengthen our national security and assist in maintaining a strong domestic economy. If the worthy economic and political aims of this program are to be accomplished, it must be effectively administered. The core of the export control program is the licensing system administered by the Office of International Trade in the Department of Commerce.

For many months export controls have been under investigation by this committee and the Special Senate Committee To Study the Problems of Small Business. These investigations were instituted because of the numerous complaints from exporters and many other persons concerning the operation of the controls and the break-down of efficiency in the Office of International Trade. Joint hearings of both committees were held and the staff work and investigations were coordinated to avoid duplication of effort. Much of the matter revealed before the two committees was the result of the intensive investigations and the very able staff work conducted by the Special Senate Committee To Study the Problems of Small Business. This subcommittee wants to express its appreciation for the splendid cooperation and the excellent achievement of the Small Business Committee and its staff. This report is confined to matters relating to the efficiency of the administration of the Office of International Trade.

HISTORY OF EXPORT CONTROLS

Prior to the recent war, almost no controls were exercised over exports from the United States. During the war, controls of exports were imposed as part of our mobilization of resources for the war effort and to prevent supplies from passing into the hands of the enemy. Export controls during the war were administered by the Board of Economic Warfare, later by the Foreign Economic Administration, and finally in September 1945 the administration of these controls was transferred to the Office of International Trade under the Secretary of Commerce. These controls during wartime were made easier by the navicert system which provided for certification of ships' cargoes in areas subject to the British blockade and the convoying of vessels which made certain that the exports reached their place of destination. The War Production Board allocated materials for essential uses while the Office of Price Administration made certain that the shipments met with the economic plans of the Nation. The Office of Censorship, Foreign Office Control, and Foreign Funds Control were likewise a great aid in export control during the war. These safeguards were abandoned when the immediate military reasons for export controls were ended. With the end of the war this country was faced with world-wide shortages of many critical items and it was deemed necessary to continue export controls to conserve the economic strength of the Nation. As a result of the war this country faced shortages of such essential materials as steel, chemicals, drugs, building supplies, and many other commodities. Devastation wrought by the war abroad closed many normal sources of production. In addition, there was an abnormal foreign demand for materials for reconstruction and rehabilitation which created critical world-wide shortages. The United States became the source of supply to a degree heretofore unknown. Exports of materials if uncontrolled would drain away materials vitally needed to meet our own domestic demands. Furthermore, the strict enforcement of controls is necessary to prevent the movement of industrial equipment and materials having a potential war use. Slipshod or inefficient administration of controls can endanger the security and welfare of the American people.

EXPORT LICENSING SYSTEM

The control of exports is exercised through a licensing system. It is believed that a review of the methods of licensing exports at the time our investigation started, as well as the improvement made since, will assist in appraising the effectiveness of our export control program. Generally speaking, commodities to be exported are divided into two classes, (1) positive list items, that is, commodities which by reason of supply or strategic value can be exported from the United States only upon the granting of an export license, (2) commodities which can be exported freely under the so-called general license (the term "general license" is a misnomer and actually means that no license is required). Since March 1, 1948, all commodities destined for continental Europe, (R. group) including Iceland, Turkey, the Azores, Maderia Islands, Tangiers, Spain and its possessions, the Mediterranean Islands, French North Africa, the U. S. S. R. and its Asiatic possessions have required approved specific licenses.

The licensing procedure for the export of commodities from the United States is initiated by the exporter who files the original and duplicate export license application forms supplied by the Office of International Trade. On certain of the applications the exporter attaches evidence of a so-called firm order or letter of acceptance from a foreign buyer and in some instances a letter from a domestic supplier stating he is willing to sell to the exporter. The application when received by the Office of International Trade is segregated by commodity and examined by clerks to determine if the forms are properly filled in and if the necessary documents or letters are attached. All documents together with an acknowledgment card are given a serial number and the card is mailed to the applicant or his representative. The application is then sent to the commodity licensing officer for examination and action. Usually the licensing officer has before him a spread sheet showing quotas available for each country on each commodity and the distribution amongst United States applicants and foreign importers. The application is examined by the licensing officer who checks to see whether an allocation is available for the country of destination, whether the firm order or letter of acceptance and the supplier's letter are acceptable, whether the quantity is within the quota limits, and further, to determine whether the granting of an application would give an unreasonable proportion of the quota to any single exporter. If favorable action is taken the duplicate of office copy of the application is initialed by the licensing officer and the clerks conform the original application to the initialed duplicate copy for such changes as have been made by the licensing officer.

Under the practice followed previous to the committee hearings, the original application was sent to the validating clerk where a perforation stamp of the Office of International Trade was impressed upon the application, which then became the license. Applications which were not granted were returned to the applicant with a notation, "Returned without action," "Rejected," or such similar observation. Ordinarily after the granting of a license the exporter usually employs a freight forwarder as his representative who handles the shipment from this point on. The exporter or his representative presented his copy of the license to the local collector of customs, together with a

triplicate form of an export declaration. This declaration sets forth the name of the vessel, port of exit, the name and address of the shipper or agent, name and address of the exporter and the consignee abroad, the port of unloading and the final port of destination, a description of the commodity, marks, weight and quantity, selling price, and the export license number (if required), and the date of validation and expiration of license. The customs collector after examining the export license and the declarations initialed the declaration if satisfactory, and under the former practice returned the license and two copies of the declaration to the exporter. The exporter or his representative delivered the duplicate export declaration to the steamship company which made up its manifest from this copy. In turn the shipping company gave a dock receipt to the exporter and a bill of lading was receipted by the shipping company when the goods were delivered on the deck. This bill of lading was presented to the bank to effectuate the payment of the letter of credit.

In the past when the exporter was permitted to retain his copy of the validated license after making partial shipment there was no way for the Office of International Trade to check the license for evidence of alteration or forgery. Experience has shown that unscrupulous exporters who altered or forged licenses would complete shipment of only 80 percent or 90 percent of the quantity of goods shown on license retaining possession of the license, ostensibly for later export of the unshipped balance. Naturally no violator would retain this copy of the forged or mutilated license in his files. It was therefore extremely difficult to detect and punish such frauds.

Since the hearings before the committee new procedures were instituted for the issuance of licenses. Hereafter the Office of International Trade will receive and act upon the applications in the same manner as has been heretofore described. However, instead of validating the application by means of a perforating machine, the Office of International Trade will type out a license on special safety paper validated in such a way that all alterations or forgeries can be easily detected. One copy of this license will then be mailed to the exporter. When the exporter submits this license to the Customs Bureau along with his other export documents the Customs Bureau will retain the license in its files. If the exporter ships only part of the amount of the goods licensed the Customs Bureau will check against the license in the files when the exporter makes his next shipment. In case part of the licensed shipment is made at another port, Customs will teletype approval to the other port. It is believed that this procedure will make alterations or forgeries of export licenses virtually impossible.

The Customs Bureau has also tightened its procedures since the committee hearings in order to avoid export declaration abuses. Under the new procedure the export license is presented to the Customs Bureau as previously described together with three copies of the export declaration by the exporter or his authorized forwarding agent whose right to represent the licensed exporter is now indicated by an authorization with the collector. The declaration is checked against the license for a description of the shipment, name of shipper, destination, name of consignee, and so forth. If the documents are in agreement the license is retained by the Customs and the export declaration is

authenticated and numbered. One copy of the export declaration is retained in the files of the Customs Bureau, one copy is used to make a physical check of the goods, while the third copy is returned to the exporter or his agent. The exporter provides the shipping company with the third copy of the declaration in exchange for a dock receipt. The shipping company prepares the shipping manifest on the basis of these copies of the export declarations. Under the new procedures the declaration is presented to the Customs Bureau before the goods are deposited on the pier or dock for loading aboard the exporting carrier to provide time for check against the export license and for Customs inspection of the goods. The dock receipt and the bill of lading covering the shipment are presented to the shipping company by the exporter or his agent when the goods are placed on the dock for loading. The shipping company provides a receipted bill of lading which is used by the exporter to secure payment for the shipment. The shipping company presents the ship's manifest and copy of the export declaration on which the manifest is based to the Customs Bureau within 4 days after the ship clears port. These documents are then checked against each other for accuracy and the declarations are then transmitted to the statistical division of the Customs Bureau for tabulation. Thus the possibility of duplicate shipment under one license will be avoided. Under this new procedure it will be virtually impossible to alter export declarations, and the multiple type of export declaration frauds which were heretofore perpetrated should be eliminated.

DELINQUENCIES IN THE EXPORT-CONTROL PROGRAM

At the hearings before the committee specific cases were studied to determine whether proper safeguards were being taken to protect the public interest. By a careful and detailed examination of specific cases many weaknesses in the administration of export controls were exposed. It should be noted that the investigation made by the committee was necessarily limited in scope by the number of persons available for assignment to this inquiry and because of the time element involved. The disclosures made merely represent symptoms of a general break-down of the program and were not intended to be a complete survey of the program. By highlighting the many extreme laxities of enforcement, the committee was able to insist on constructive changes, which in many cases have been made.

It seems almost incredible that a nation such as ours would embark on a program to control its exports without having greater foresight and more advanced planning than there was in this case. It is paradoxical that when the Government attempts to control any business operation of this magnitude, the financial rewards for violating the regulations are so great that many dishonest persons are attracted to it. The Government has a grave responsibility in such a situation to so enforce its program that it protects the honest businessman. In the case of the export-control program at the time our committee began its investigation the reverse was true—it rewarded the unscrupulous and made it extremely difficult for many honest merchants to survive. Some of the examples set forth below will illustrate this fact.

FORGED LICENSES AND TRAFFICKING IN LICENSES

One of the first cases considered involved the possession of numerous forged licenses by the Haro Products Co. of New York. Fifteen of these licenses found in the possession of the Haro Products Co. showed that illegal shipments had been made of more than 200,000,000 pounds of flour, and nearly 1,000,000 pounds of lard while both lard and flour were in very short supply in the United States. These shipments, of course, were over and above the quota allocated for export, and of necessity contributed to the creation of still greater scarcity in the United States because they came from stocks set aside for domestic consumption. No doubt illicit shipments such as these have played a part in the rise of the cost of these products in the domestic market.

Investigation soon developed that it was a common and accepted practice in all large American ports to advertise and sell licenses even though they were not legally transferable. In many instances licenses were worth more than the commodities themselves. The traffic in the sale of licenses was so great that the largest trade publications in New York City daily carried two or three pages of advertisements of commodities with export licenses for sale to any purchaser.

The committees' investigations disclose that the forged licenses in the possession of Haro Products were purchased from John Quinn. Quinn when questioned by the committees first stated that he had acquired these licenses in good faith from a person known to him as Thomas Maguire. After intensive investigation by the committees' staffs Maguire was identified to be Thomas Quinn, an uncle and an employee of John Quinn. Thomas Quinn admitted that he used the name Maguire and that he did so at John Quinn's instigation but denied he had furnished the forged licenses to John Quinn. It was established through Thomas Quinn that John Quinn had purchased and had in his possession rubber stamps which were forgeries of Office of International Trade stamps used in validating amendments to licenses. After these facts were brought out at the hearing John Quinn refused to testify further on the ground that his testimony might tend to degrade or incriminate him.

At the hearings witnesses testified that the forged licenses sold by John Quinn to the Haro Products Co. were in turn sold to the Crescent Trading Corp. To illustrate how lucrative this practice was the record shows that the Crescent Trading Corp. paid \$9,300 for just two of these forged licenses. In another case it was found that John Quinn had sold forged licenses to Lohne Bros., an export company in New York City, and at least seven shipments of lard, totaling 217,966 pounds were made to Venezuela on these forged licenses. Because there is no way to check, it is impossible to say how many millions of dollars' worth of products were illegally shipped from the United States through similar forgeries.

A comparison of the numbers on these forged licenses with the bona fide licenses was made. It was found that bona fide licenses bearing these numbers had been issued to different exporters for different commodities, consignees, and destinations, and had no relation to the forged license. There can be no doubt that these forgeries were not limited to the sale of licenses to Lohne Bros. and Haro Products Co. The indications are that the ramifications of this and

similar forgery rings were widespread. Quinn is now awaiting trial before the United States District Court, Southern District of New York, on a charge of uttering these forgeries.

Not all of the trafficking in licenses was confined to dealings in forged licenses. Although a license was intended to grant a privilege to the license applicant only, it was common practice in the export trade to sell and barter these licenses. The large number of advertisements which appeared in export-trade publications and newspapers and other facts disclosed by our investigation show that there was a regular market for buying and selling licenses. Although these advertisements and dealings were a matter of general and public knowledge, the Office of International Trade under the Department of Commerce made little effective effort to stop such obvious illegal peddlings of licenses. It was only as a result of the disclosures in this investigation that the Office of International Trade in the latter part of July 1948 issued a regulation making such advertisements illegal. It may be stated that it was through the efforts of the committee that the practice of carrying such advertisements has practically disappeared.

The Quinn case illustrated many weaknesses in the licensing system. For example, it showed that after a license was issued by the Office of International Trade no effective effort was made to check the license presented at the customs office to see if it conformed to the license issued. This was an invitation to forgery. The absence of fear of apprehension plus the ease with which forgeries and alterations could be accomplished made this field a lucrative one for the unscrupulous. It would serve no useful purpose to dwell on the many inefficiencies noted in a study of this particular case. However, one aspect illustrates most vividly the casual frame of mind which sometimes permeates Government agencies and which results in appalling failures.

In March 1948 it was discovered that a counterfeit machine was in existence which was producing forged licenses. Bearing in mind that the Office of International Trade had only one legal validating machine, that agency should have immediately acquired a new and different machine and promptly notified the Customs Service to be on the alert for forged licenses. The Office of International Trade did neither. It was not until September 1948 that the machine was changed. There is no way of knowing the amount of commodities which may have been illegally shipped out of the country during this interim. At the hearing two excuses for such a delay were offered: (1) a new machine would have cost \$500 or \$600 and there was no money for it and (2) it was not possible to get a different type of machine. Obviously, both excuses were wholly without merit. No private business could exist if it operated in such an inefficient and helpless manner.

FRAUDULENT SHIPMENTS

Another type of fraud uncovered by the committee involved the fraudulent labeling of commodities for the purpose of illegally exporting them. The committee discovered one case where about 1¼ million pounds of cast-iron soil pipe which was critically needed for domestic housing was exported without any license by labeling it "concrete pipe." In that case Robert M. Mistrrough, an exporter, arranged to sell 1,736,000 pounds of cast-iron soil pipe to the Magellan Enterprises

of Newark, N. J., and the Reliance Enterprises of New York City for shipment to the Philippine Islands. He represented to them that he had a source of supply from which he could obtain the cast-iron soil pipe and he stated that he would get the necessary export licenses. The purchasers who themselves had been unable to obtain licenses from the Office of International Trade for the export of cast-iron soil pipe agreed to buy from him.

Investigation disclosed that Mistrrough purchased the cast-iron soil pipe from the Peerless Pipe & Foundry Co. of Anniston, Ala., and had the pipe packed at that place in wooden crates for overseas export. Thereafter, Mistrrough filed export declarations on which he described the cast-iron pipe as "concrete pipe" thereby avoiding the necessity of obtaining an export license. Cast-iron pipe was in very short supply and could be exported only under license while concrete pipe which was not in short supply could be shipped without any license. The mislabeled pipe was then shipped from the port of Mobile, Ala., in the name of the R. W. Wilson Co., a dummy corporation operated by Mistrrough.

When Mistrrough appeared before the committee he contended that he had the cast-iron pipe coated with concrete by a dipping process and for that reason he considered he was shipping concrete pipe as he indicated in the export declarations. When questioned concerning this matter he testified that after the cast-iron pipe was crated at Anniston, Ala., he arranged for it to be trucked to Leeds, Ala., some 40 miles away. He alleged that at Leeds the pipe was then uncrated, dipped in concrete, recrated, and carried by truck to dockside at Mobile. He said that the dipping process was done by one C. J. Toynbee, a resident of Leeds with whom he had previously struck up a chance acquaintanceship. In an effort to verify Mistrrough's story, committee investigators made inquiries in Alabama and determined that a reputable trucking firm carried the pipe directly from Anniston, Ala., where it had been originally crated, to the docks at Mobile. There was no evidence that the pipe had ever been taken to Leeds, Ala., for the alleged dipping process. Furthermore, extensive inquiries at Leeds, Ala., a very small community, failed to disclose any facilities in that town for the dipping of cast-iron pipe; nor was it possible to locate C. J. Toynbee or anyone who had ever heard of him. Notwithstanding these facts, Mistrrough insisted in reiterating this apparently ridiculous fabrication concerning the handling of the pipe, however, when he was questioned by the committee concerning the R. W. Wilson Co. he refused to answer any questions on the ground that his answers might tend to incriminate or degrade him.

In this case the evidence is clear that 1,736,000 pounds of cast-iron soil pipe was exported without a license. Experts of the National Housing Administration informed the committee that this amount of soil pipe, which was in critically short supply, was equivalent to the amount used for the building of 2,700 average homes in the United States. There is no doubt that this practice of falsely describing commodities was not uncommon. It is recommended that the Office of International Trade and the Customs Bureau make adequate spot checks of shipments, especially shipments of commodities in critically short supply at embarkation points, in an effort to prevent and detect this type of violation.

FORGED LICENSE APPLICATIONS

In addition to the facts related above it was discovered that Mistrrough filed two applications for licenses in the name of the Peerless Pipe & Foundry Co., of Anniston, Ala., and falsely signed these licenses as vice president of the company. Officials of the company testified that Mistrrough was not and never had been an official or stockholder of the company and he had no authority whatever to apply for a license in the company name or to sign his name as vice president of the company. Mistrrough, when questioned by the committee, admitted that although he had signed his name as vice president of the company he was neither an official or a stockholder of the company and he had never been. The ease with which this type of fraud was perpetrated indicates there is little doubt that an untold number of similar frauds were committed. Another illustration of a similar occurrence was found in the application made in the name of Rael Schechter Co., discussed later. If all exporters were registered and the officers authorized to sign the applications designated, together with sample copy of their signature, such fraudulent practices would be greatly curtailed.

ALTERATION OF RECORDS BY AN OIT OFFICIAL

In the course of the investigation of the Mistrrough case it was found that Peter Lektrich, a licensing officer and former chief of the Building Materials Section of the Office of International Trade, had issued a license for an unusually large quantity of soil pipe, soil-pipe fittings, and cast-iron lavatories to Mistrrough. Lektrich admitted that this license for an excessive amount for export was granted because of his personal friendship with Mistrrough and because he had been motivated by the prospect of going into business with Mistrrough at a subsequent time. After the license was issued Mistrrough advertised the sale of the soil pipe with licenses in New York City papers and the amount of soil pipe advertised for sale was so large that complaints came to the attention of Lektrich concerning the issuance of this license. He telephoned to Mistrrough stating that he expected to be in difficulty and asked Mistrrough to return the original license, which he was promised would be done. Lektrich in the meantime in order to avoid questions by his superiors altered the original copy of the license by crossing out the authorization for the export of soil pipe and soil-pipe fittings and greatly reducing the amount of other items. When Mistrrough saw Lektrich he told him that he could not give up the original license since he had already made partial shipment of the soil pipe so he retained the license and completed the shipments. The original license meanwhile was picked up by the New York office of the Office of International Trade and it was then discovered that this too had been altered by the addition of the words "68 tons of nails." No satisfactory explanation was ever given as to how the forgery occurred. The item of 68 tons of nails was a forgery committed either by Mistrrough or someone apparently acting on his behalf.

This type of illicit alteration of licenses apparently was not uncommon. If the Office of International Trade had adopted the simple precaution of drawing a line under the last item actually authorized in the former type of license, it could have prevented the typing in of additional lines for other unauthorized commodities and amounts.

FORGED ORDERS TO OBTAIN A LICENSE

The regulations of the Office of International Trade require that applications for licenses for certain items on the positive list be supported by evidence of a firm order from a foreign buyer. The committee's investigation uncovered a series of letters attached to applications for licenses made by one Murray N. Nelson of New York City which purported to be firm orders. They were written on the stationery of different companies from Calcutta, India; Aleppo, Syria; Lisbon, Portugal; and New York City. Examination of these letters by an expert document examiner indicated that all of the letters were written on either one of two typewriters in the possession of Nelson. Nelson admitted that he wrote the letters but claimed they were written with the knowledge of the foreign companies. However, he further admitted under oath that his purpose in writing and submitting the purported "firm orders" of the foreign companies was to deceive the Office of International Trade into believing that he was selling the commodities at a lower price than he actually was. He admitted that he knew if he disclosed the true price he would not get the license and so he resorted to the practice of writing the orders on foreign company stationery in his office showing a low price in order to get the license. He stated that this was a common practice among certain exporters. One of the reasons for this type of fraud is the lack of uniformity in the requirements for a firm order. Some licensing officials of the Office of International Trade regard any writing on foreign stationery to be a firm order and others have rejected orders accompanied by an established letter of credit. Consideration should be given by the Office of International Trade to establishing greater uniformity as to what constitutes proof of a firm order. Those who attempt to illegally circumvent these regulations, should receive no further licenses and their cases should be reported to the Department of Justice for immediate prosecution.

REPEATED FRAUDULENT SHIPMENTS ON SAME LICENSES

Investigation also revealed that in many cases duplicate shipments had been made on the same license. For example, a license was granted to export 30,000 pounds of lard to Bolivia upon an application made in the name of Rael Schechter Co., Inc., of New York. This application was signed by one J. C. Lacayo, as general manager of the company. It appeared that Lacayo was not a member of the Rael Schechter Co. and had no authority to sign this application. This license was purchased from Lacayo by Manuel Holguin at a price of 1½ cents a pound (itself a violation of the Office of International Trade regulations against trafficking in licenses). Holguin in turn employed a freight-forwarding agency, the Tremontane Shipping Co. Three export declarations based on this license were signed by Edward Califanto for the Tremontane Shipping Co. The amount shipped on these export declarations totaled 98,050 pounds, whereas the license only authorized 30,000 pounds. Califanto when questioned concerning these declarations refused to answer on the ground that his answers might tend to incriminate him.

In another case a license was issued to one Simon Bedoya in April 1947 for the export of 100 tons of steel. This license was turned over

by Bedoya to the Tremontane Shipping Co. Here again, two export declarations were filed on the basis of this license for the shipment of 125 tons of steel, whereas the license only authorized 100 tons. A preliminary investigation by the committee's staff disclosed that this practice of shipping more than authorized by the license has not been an uncommon practice. This type of fraud could have been eliminated by having the export license not only examined by the Customs Bureau but kept by them when it was presented with the export declaration rather than returning it to the applicant after a partial shipment. The former practice of permitting the exporters to retain licenses on which only partial shipments had been made enabled unscrupulous exporters to duplicate shipments. This was particularly true where the shipments were so numerous that addendum sheets were stapled to the license containing notations of the partial shipments. It was a simple matter to remove the staples, insert a new addendum sheet, and make repeated shipments; and the committee was informed that this was a common practice. It is felt that under the present practice, whereby the customs office retains a license upon its presentation with the first partial shipment this type of fraudulent duplication of shipments will be greatly lessened.

MISLABELING COMMODITIES FOR EXPORT

Other loopholes in the export-control program were revealed by the committee's investigation. In April 1948 Customs officials discovered that a large shipment of nails from 2½ to 3 inches long of the type similar to those used in building construction were being shipped out of the United States labeled as "shoe nails." The exporter in this instance was the Fadex Foreign Trading Corp., which specializes in the export of shoe nails. Under the Office of International Trade regulations, nails used in building construction were required to have an export license while shoe nails were not. The Fadex Co. shipped in a period from August 1, 1947, to July 31, 1948, 19,400 pounds of 3-inch nails, which were described by them as shoe nails. Building nails are in extremely short supply in the United States and their export quotas are consequently low. A representative of the Fadex Co. testified that the distinction between a shoe nail and a building nail had never been clarified by the Department of Commerce and that he had been notified in writing that no license was required. Under the circumstances it is difficult to blame an exporter for shipping these type nails under a general license. However, largely as a result of this case, the Office of International Trade has placed all shoe nails on specific license.

This case illustrates one of the many problems facing the Office of International Trade which requires considerable thought and the exercise of good judgment. The swing from one extreme of putting all shoe nails regardless of type or size on general license to the other of placing all shoe tacks and shoe nails of even the smallest size, such as three-eighths of an inch on specific license, leaves much to be desired. It is felt that from time to time the Office of International Trade should reexamine its position on commodities with a view to placing on a positive list those commodities which should be there by reason of short supply and removing such items from the positive list when there is no longer a reason for them to remain thereon. Com-

modity descriptions should be more closely examined to determine whether or not they are sufficiently comprehensive to prevent shipping materials in short supply under false descriptions.

INEFFICIENCY WITHIN THE OFFICE OF INTERNATIONAL TRADE

Some instances of gross inefficiency on the part of the employees of the Office of International Trade were discovered. There is no reason why the same standard of efficiency should not be required of an employee of the Government as is required in private industry, but in many instances this is not the case. For example, a survey by the Office of International Trade Enforcement Branch disclosed that applications requesting permission to ship 2,000,000 pounds of lard were cut down by the licensing officer to less than one-tenth of the amount, to wit, 199,000 pounds to conform to the quota allocations. Due to negligence and inefficiency the original applications were not amended to conform with the amounts approved by the licensing officer. Licenses were erroneously issued to the exporters for the full amount of 2,000,000 pounds, resulting in the shipment of 1,800,000 pounds in excess of the quota.

The responsibility for these errors was fixed upon a clerk in the Office of International Trade. There is no evidence that she was ever brought up on charges or even reprimanded. If a similar situation had taken place in private industry there can be no doubt that such an employee would have been made to feel the gravity of the mistake and some action would have been taken to alert others that such inefficiency would not be countenanced.

Another similar illustration concerns a license application made by the L. N. White Co. of New York. In this case the applicant requested and was inadvertently granted an excessive quota of flour for one country and actually shipped the flour to a second country several thousand miles away from the country of original destination. At the committee hearings it was developed that an application by the L. N. White Co. for the export of 6,000,000 pounds of flour to Liberia was granted on October 27, 1947, by one of the licensing officers of the Office of International Trade despite the fact that the entire quota for this quarter was only about 480,000 pounds. This error was discovered on January 13, 1948, by another licensing officer and steps were taken to stop the shipments immediately. However, when the exporter explained that he had already acquired 5.6 million pounds of flour and chartered a boat the officials of the Office of International Trade decided to allow the shipment to go forward because they felt it would work a hardship on the exporter.

The flour was shipped from the port of New Orleans on January 31, 1948. The officials of the Office of International Trade admitted at the committee hearings that they were suspicious that this flour was going to be transshipped because the flour was being ostensibly sent to Liberia by way of Lebanon. Their suspicions were aroused by the fact that the indirect route to Liberia by way of Lebanon was 6,000 miles longer than the direct route from the United States to Liberia. They were also put on notice of a likelihood of transshipment by the fact that 6,000,000 pounds of flour were far in excess of Liberia's needs. These suspicions led the Office of International Trade officials to request the State Department to watch the shipment and report

on its ultimate destination. The State Department reported after the arrival of the flour at Lebanon that none of the flour reached Liberia; but the flour was sold in Lebanon, the major portion of which was then shipped to Transjordan. Despite the evident lack of good faith and what appears to be a planned effort to circumvent export-control regulations there is no evidence of any disciplinary action against any of the parties involved. The initial error in issuing a license for 6,000,000 pounds of flour when the quota was only 480,000 pounds was a typical example of inefficiency. This coupled with the knowledge that it was apparent and obvious that the flour was not actually going to be shipped to Liberia but was going to be sold into countries for which no flour quotas were established, can only be characterized as gross negligence in allowing the shipments to proceed.

Another illustration of gross inefficiency was found in the case of John Quinn previously discussed. Not only were the Quinn forgeries undetected by the Office of International Trade until the Senate committees revealed Quinn's activities, but even after the committees had disclosed Quinn's connection with the forgeries the Office of International Trade issued him two licenses for the export of 1,000,000 pounds of rice to be shipped to Cuba. This occurred 2 weeks after that agency itself had placed him on their "watch list" to prevent him from getting additional licenses. The OIT was unaware of this fact until the committees' investigators seized the licenses and brought it to their attention.

In fairness to the Office of International Trade and in partial mitigation of the inefficiency which existed in that agency it should be pointed out that prior to June 1948 the Office of International Trade was operating with a limited staff because of a restricted budget. Since that time the personnel of the Office of International Trade has been materially increased and there has been a general improvement in the operation of that Office.

LACK OF INFORMATION CONCERNING EXPORTERS

The recent committee hearings revealed an influx of disreputable persons into the field of export trade. It is felt that this could be curtailed through the establishment of a register of recognized exporters. It is unfortunate that this influx of disreputable persons and their lawless actions have reflected upon the trade. The great majority of exporters are substantial, honest firms whose dealings have been above reproach. Too much praise cannot be given to the legitimate American exporter who has done so much to advance the foreign trade of the United States. It is for their protection as well as that of the Government that the committee recommends the establishment of an exporter register.

Attention is called to the fact that the Commercial Intelligence Branch of the Department of Commerce has for many years compiled a register of approximately 15,000 exporters and importers on a voluntary basis. No doubt the large majority of legitimate exporters already has registered voluntarily. Under this voluntary registration (Form 57) the exporter furnished the following information: Date and place of incorporation; trade name or partnership; amount of paid-in capital; list of stockholders; nationality, names, and addresses of officers; names and addresses of foreign branches, if any; and the princi-

pal commodities exported. While the information contained in the register of the Commercial Intelligence Branch is available to the Office of International Trade, the licensing officers are not required to refer to this register. Inasmuch as the present registration is a voluntary action on the part of exporters it goes without saying that the unscrupulous and dishonest exporter does not register, since it is not to his interest to reveal the truth concerning his activities. A register compiled from a compulsory comprehensive questionnaire submitted to exporters would make the enforcement problem much easier. This register would indicate which exporters should be supervised. It would also prevent multiple applications for licenses by the same person under different names. This questionnaire should contain additional information such as possible past criminal record and whether the designated exporter is the real party in interest, etc. The latter would tend to eliminate dummy concerns. In no sense should a register of exporters be operated in such a manner as to limit free trade or enterprise. The size, length of time in business, or financial standing of an exporter should have no bearing on the establishment of this register. The suggested requirements are no more stringent than the requirements for an automobile or hunting license in many States and should be put into effect at once in order to permit the Office of International Trade to know who the exporters are and what their history has been.

STANDARDS IN THE GRANTING OF LICENSES

It was determined by the committee that the standards applied in granting licenses seem to vary from one exporter and one commodity to another. It is difficult to understand why some licenses were granted and under similar conditions others were denied, why some exporters were able to obtain licenses to ship large quantities and others only allocated small quantities for shipment. Numerous complaints were received concerning the lack of uniformity in processing license applications, and the lack of uniformity on requirements of letters of acceptance and availability. One commodity group would lay down one set of rules on letters of acceptance and availability and another commodity group appeared to have entirely different criteria. The committee's investigation showed that in some instances favored applicants were not required to submit letters of commitment and availability, while other applicants were held to a strict rule of supplying satisfactory acceptance and availability evidence. Many incomplete applications would be held for long periods of time, without informing the applicant of the deficiency in the application. Other applications would be processed and licenses granted despite the fact that applications filed at an earlier date were not acted upon.

Complaints were also made, with apparent justification, that certain groups of exporters such as prime producers were granted larger allocations of quotas than the merchant exporter groups with the result that the merchant exporter was being driven out of business. It was charged that expediency played a large part in such favoritism, that the Office of International Trade officials took an easy way out of the vexing distribution problem by awarding large shares of available quotas to a few large producers to the detriment of the small exporter because it required less effort to divide a heavily oversubscribed quota

between a few large producers than between a large number of small exporters.

It was further charged by exporter groups that the Office of International Trade resorted to unrealistic "price criterion" as one of the standards for issuing licenses. Price criterion is a method by which applications for export licenses were granted on the basis of the lowest prices submitted. Recently the policy relating to price as a standard has been modified by section 373.2A of the Department of Commerce Export Regulations, which provides that price be considered as a factor "only when the export price for the specific commodity is obviously excessive." However, past experience has shown that the Office of International Trade in fact had insisted on using unrealistic price criteria in some commodities which required that exporters submit license applications at a price lower than these commodities could be purchased on the open market. Such practice encourages exporters to resort to fraud in order to remain in business. As an example, in one case a certain exporter applied for a license at prices well below that of the market or of all his competitors. The export declaration showed the same price as his license, but the invoice to foreign purchaser and the letter of credit showed a sum of \$5,000 additional for "engineering services," thus the exporter's true price was far above the "going" price and the price stated in his application was a false price. In other cases on export licenses secured on the basis of a low price statement in his application, the exporter ships goods to relatives or business partners and then arranges to sell the commodities at higher prices and get payment through surreptitious foreign exchange arrangements. The application of unrealistic price criteria serves to enhance the profits of the unscrupulous exporter while preventing the honest, legitimate exporter from doing business.

It is evident that no equitable or systematic method of granting licenses was in effect in most commodity branches. As a result of inadequate standards for the issuance of licenses the door was left open for favoritism, made for inequities in the granting of licenses and caused confusion and dissatisfaction among legitimate exporters. It is, therefore, essential that the Office of International Trade establish and follow workable and uniform standards in the issuance of export licenses. Furthermore, these standards must be made sufficiently clear and should be given adequate publication in the export trade so that the average businessman may understand how, when, and under what conditions he may reasonably expect to receive approval of license applications submitted by him.

DESTINATION CONTROL

The unauthorized diversion or transshipment of export commodities, as well as misrepresentations as to the end use of such commodities, is one of the most serious problems in our export control program. The lack of adequate destination control can defeat the economic and political purposes of the entire export control program. It is, therefore, essential that the Office of International Trade use every reasonable means to guarantee enforcement of and compliance with the terms and conditions of export licenses issued by that Office. The first step in the problem of destination control involves the promulgation and enforcement of workable and effective controls in this

country with regard to the issuance and use of export licenses. It is the responsibility of the Office of International Trade to take every precaution to see that licensed commodities shipped from our ports are, in fact, the commodities authorized by license and are destined for the country to which licensed.

On July 9 and August 15, 1948, after the committee's inquiry had been under way for some time, the Office of International Trade put into effect additional regulations expanding the enforcement of export controls. Although these new regulations deal primarily with the issuance and handling of licenses which is a domestic enforcement problem, they also have the effect of strengthening the destination control program by making it unlawful to divert commodities, to falsely state the country of ultimate destination, and to falsely state the end use of an export commodity. These and similar provisions will undoubtedly make for more efficient destination control. Notwithstanding the expanded enforcement program here at the domestic level it must be realized that once properly licensed commodities leave our ports, it is still quite possible that they may be diverted while en route to their ultimate licensed destinations, or that upon arrival at their destinations they may be transshipped to another country. In either case the purposes of the export-control program would be defeated. Furthermore, it is possible that properly licensed commodities, after arriving at their ultimate destination, might be put to uses other than those indicated at the time the licenses were granted. The violation of license terms and conditions concerning the end use of commodities might likewise defeat the purposes of our export-control program.

The matter of controlling the diversion, transshipment, and end use of export commodities once they leave our ports is a difficult but not an insoluble problem. In addition to the domestic compliance and enforcement procedures which narrow the field of evasion of our export regulations, there are a number of procedures which can be adopted to effect efficient destination control after commodities leave our ports. Although the Office of International Trade has been aware of the problem of destination control since the initiation of the present export-control program on December 30, 1947, almost 9 months elapsed before any worth-while positive steps were taken to meet this problem of foreign compliance and enforcement. Destination control is an immediate problem affecting the very heart of our export-control program and for this reason requires immediate action. Further delay cannot be countenanced in the handling of this phase of our export-control program.

Recently the Office of International Trade initiated steps to enlist the assistance of the American Foreign Service in the overseas investigative and compliance aspects of destination control. Plans have also been made for cooperative arrangements with some foreign governments to assist in this destination control program in their countries. At the present time these phases of the destination control program are in an exploratory stage and no positive plan of action has as yet been worked out. It is obvious that the Office of International Trade should have sought the assistance of the Foreign Service and of foreign governments months ago. The urgency of adequate destination control cannot be overemphasized. It is essential that the Office of International Trade, in cooperation with

the Department of State, accelerate its present plan of utilizing our Foreign Service and obtaining the cooperation of foreign governments in the destination control program.

The Office of International Trade has organized a Foreign Compliance Section within its compliance branch, in order to direct and coordinate the enforcement problems arising in connection with destination control here and abroad. Here again the Office of International Trade was entirely too slow in setting up and staffing its own foreign compliance section which is still undermanned. The foreign compliance staff of the Office of International Trade should be brought up to full strength immediately, in order that this important phase of our export control program can be given prompt and vigorous attention. It has been indicated that the understaffing of the Foreign Compliance Section has been caused in great part by the slowness of the Civil Service Commission in approving employees qualified for that work.

Representatives of the Office of International Trade have also held preliminary discussions with officials of the Economic Cooperation Administration for the purpose of seeking the assistance of that organization in strengthening destination control in those countries participating in the European recovery program. However, here again, the Office of International Trade has not yet worked out any definite plan with the Economic Cooperation Administration concerning the assistance which might be offered by that agency in the destination control program. Officials of the Economic Cooperation Administration have indicated that their representatives abroad could be of some assistance to the Office of International Trade in the enforcement of destination control by making spot checks of ultimate destination and end use of licensed exports to European recovery program countries. This committee believes that the Office of International Trade and the Economic Cooperation Administration should immediately work out the details as to the extent and type of assistance which may be rendered by the Economic Cooperation Administration in this program. No further time should be lost in this matter.

The banks, freight forwarders, marine insurance companies, and overseas carriers which actually handle our export trade or perform the financial transactions in connection with this trade can render valuable assistance in the destination control program. Several months ago Mr. Samuel Klaus, a special consultant in the Office of International Trade, drafted a number of proposed regulations which would place certain legal responsibilities upon banks and other business institutions regarding the observance of export regulations by exporters who must necessarily deal with these firms in the normal course of their business. The Office of International Trade has been considering these proposed regulations which are based on the premise that banks, freight forwarders, and others engaged in the export trade handle invoices, letters of credit, bills of lading, and other export documents which set forth detailed information concerning specific export transactions. These documents include information concerning the kind and quantity of commodities being exported, shipping instructions, the location and identity of ultimate consignees, and other data which in many cases might disclose violations of our

export regulations if compared with the information set forth in the export license or in the shippers' export declaration.

A typical example of this situation was disclosed in the committee's public hearings. In one case 12 shipments of streptomycin valued at approximately \$173,000 were sent from this country to Argentina without export licenses, in violation of regulations. The export declarations which were examined by the customs officials merely indicated that empty glass vials which required no license were being shipped, when, in fact the vials contained streptomycin. However, the export documents, including the bills of lading and letters of credit which were in the hands of the bank, indicated that streptomycin was being shipped. Had the bank made immediate comparison of the export declaration and the shipping papers, it would have been apparent that streptomycin rather than empty vials were being shipped and this serious violation would have been discovered.

In considering these proposed regulations affecting business firms engaged in the export trade, it was felt by some officials of the Office of International Trade that their promulgation would not only disclose many export-control violations, but even more important, would result in the prevention of future violations by making it more difficult for potential violators to carry out their illegal transactions. Although the Office of International Trade is still considering these proposed regulations, they have not been implemented because it is the opinion of the Office of International Trade that such regulations would in part duplicate present regulations and it is believed that these proposed regulations would in many instances place additional burdens and liabilities on the banks and other business firms engaged in various phases of the export trade. Therefore, rather than promulgate these additional regulations at this time, the Office of International Trade has sought the voluntary cooperation and assistance of banks and other business firms with the hope that they will be alert for and report possible violations which come to their attention in the ordinary course of business.

It is, of course, the responsibility of the Office of International Trade to take every reasonable measure to uncover and prevent evasions of the destination control program. The Office of International Trade cannot expect banks and other private business firms to render worth-while assistance in the problem of destination control unless these firms are familiar with the aims and purposes of the program and unless they are fully advised as to the specific type of information which the Government is seeking to obtain in order to detect and prevent the unauthorized shipment or diversion of exports. It is believed that many of the procedures set forth in the regulations which were proposed by Mr. Klaus might be utilized profitably by the Office of International Trade at this time in working out a program of voluntary cooperation with private business firms. It is therefore suggested that in handling this phase of the destination control program the Office of International Trade prepare and present instructions to these business firms setting forth detailed information as to the manner in which these firms can be expected to assist in the enforcement program. Thereafter, the Office of International Trade should maintain a close liaison with the banks and other business organizations engaged in the export trade in an effort to encourage their voluntary cooperation in the destination control program.

However, if after a short period of time active and wholehearted cooperation is not forthcoming or if for any reason export commodities continue to be diverted or transshipped, the Office of International Trade should then consider promulgating the proposed regulations affecting banks, marine insurance companies, and others in order to make certain that the goods which are shipped from this country go to those countries to which they are destined.

CHANGES MADE AS A RESULT OF COMMITTEES' INVESTIGATION

It is noted with approval that as a result of the investigations by the committees the Office of International Trade took cognizance of the abuses of export practices and in order to curb fraud and illicit export operations made numerous changes in their export regulations. Under these new regulations the transfer of licenses, the trafficking in and the advertising of licenses for sale, the misuse of and unauthorized amendments of licenses and the reexportation of goods from the country of destination without permission were prohibited. Although similar prohibitions had been in effect previously, they were less specific in nature and were not as far reaching as the new regulations. These new regulations also clarify matters of policy on exports, the historical basis of licensing, the policy on pricing, the sufficiency of evidence of accepted orders and the evidence of availability of materials, the specifications of end use of shipments, together with the requirements that the purchasers be the ultimate consignees.

New methods of validating and issuing export licenses were adopted involving the use of safety paper and special typewriters to prevent forgeries. New procedures were instituted on the authentication and the use of export declarations to prevent fraudulent practices. In addition, procedures were set up for the denial of licensing privileges to those guilty of export control violations. Specific provisions were also adopted providing penalties for misrepresentations made in export control documents and other export control violations.

The activities of export expeditors have been a matter of considerable concern to the committee. Investigation revealed that these expeditors, who acted as exporters' agents in obtaining export licenses from the Office of International Trade, operated in Washington and on a smaller scale in other cities. It was the alleged function of these expeditors to assist exporters in obtaining licenses by handling the details involved in processing licenses in the Office of International Trade. These expeditors charged fees, sometimes very substantial fees, for rendering this service. A number of these expeditors were former employees of the Office of International Trade and many of them indicated to their clients or prospective clients that they had influence with licensing officers or other Government officials and could obtain preferential treatment for their clients in the issuance of licenses. There is no doubt that many of these expeditors attempted to bring pressure and influence to bear upon Government officials by gifts, promises, and other unethical means. Because of the notorious and widespread operations of these expeditors, it was generally believed in the export trade that many of them were obtaining export licenses by unethical or corrupt means.

Since the initiation of this investigation, the Office of International Trade has promulgated regulations establishing ethical standards for expeditors in an effort to curb corrupt practices. It is suggested that the Compliance Unit of the Office of International Trade make every effort to enforce the present regulations affecting expeditors. This is particularly important if the Office of International Trade is to retain the confidence and respect of legitimate businessmen. It is not only necessary to practice honesty in the operation of a governmental agency, such as the Office of International Trade, but the agency must be run in such a manner as to give the impression of an honest, businesslike operation. If the activities of expeditors gives the general impression that Government officials are engaging in illegal or shady practices, then it is suggested that even further restrictions be placed upon the activities of these expeditors. This is particularly important in the case of former employees of the Office of International Trade who are acting as expeditors.

It is the opinion of this committee that the Office of International Trade should be commended for setting up commodity export advisory panels in April of this year. These panels afford a method by which the Office of International Trade may consult with and secure the active cooperation of various segments of the export trade for the purpose of strengthening the export control program. Although the inauguration of this policy did not result from the committees' investigation it is felt that this matter should be discussed in this report. Each panel, as now set up, represents a cross section of the export trade engaged in exporting a particular commodity. As a result of the work of these panels many exporters have learned at first hand the problems in licensing limited quantities of scarce commodities and the Office of International Trade has been able to secure the benefit of trade consultation in arriving at export control policies. This policy of trade consultation should be continued and if possible should be expanded in an effort to further strengthen the export control program.

ENFORCEMENT AND COMPLIANCE

The duty of administering export controls carries with it the responsibility of enforcing export controls. That such responsibility was taken lightly in the year 1947 is obvious from the fact that only one man in the Office of International Trade was assigned to the job of policing exports for that year. This short-sighted administrative practice enables unscrupulous persons in the export trade to engage in fraud, forgery, and other illicit devices to circumvent license requirements with little or no chance of being detected. The stakes were fabulous. It is apparent that there was no dearth of export violations and that officials of the Office of International Trade were content to refer violations to the Department of Justice and relieve themselves of any responsibility. They made no effort to interest themselves in the cases which were referred to the Department of Justice or to follow them up with any vigorous action.

As a result of matters developed before the Senate committees the Office of International Trade requested and received a budget allowance for an enforcement staff of 56 persons. At the time this report is written it is understood that 50 are so employed under an Acting

Chief of Enforcement. The Enforcement Unit as now set up is placed in the operational level of the Office of International Trade, several echelons removed from the top of organization. An enforcement and compliance unit within an agency must have sufficient authority, independence, and freedom of action to carry out its investigatory functions at all levels without the possibility of its actions being vetoed or otherwise hampered by the unit chiefs or other officials in the agency. It is the opinion of this committee that the present Enforcement Unit of the Office of International Trade could operate more effectively if it were made an independent unit responsible only to the head of the agency. Such a change is especially important inasmuch as the success of our export control program depends to a great extent upon efficient compliance and enforcement both here and abroad.

Under an Executive order the Customs Bureau was assigned the duty of helping in the administration of export controls and assisting the Office of International Trade in the enforcement of these controls. However, it is emphasized that the enforcement duty is the primary responsibility of the Office of International Trade and it is therefore the responsibility of that agency to make sure that any other agencies which assist in the enforcement program are carrying out their part of the work.

The collector of the port of New York testified that in addition to a few clerical employees in the customs office he used a squad of only 15 men to police exports prior to March 1948. He testified that there was little or no dock inspection to see if the shipments placed on the dock agreed with the export declarations and licenses or of the contents of containers placed in any particular vessel. These 15 men, a small part of his entire staff, were used to police an area which embraced Long Island Sound, Greater New York Harbor, including the New Jersey and New York shores, and the Hudson River. The shore lines of this area extend hundreds of miles. He testified that no guards were employed on the docks or placed on vessels loading for out-bound passage. Since no customs inspectors are present on the docks, it was possible for unscrupulous shipmasters to load their ships from a lighter alongside the boat or even from the docks without any check. In this manner, undeclared cargoes containing strategic materials could be shipped out of the country without detection. In the year 1947, although exports were three times as large as imports, only a small percentage of the personnel were assigned to export control duties. However, under current budget allowances the Customs Bureau has been allocated a substantial sum to police exports from the United States. Practices concerning the approval of export declarations, and the examination and rendition of export licenses have been materially tightened. It was noted with approval that there has been a general tightening of enforcement on the part of the Customs Bureau since the Senate hearings were initiated.

In addition to the delinquencies revealed in the committee's public and executive hearings the investigations conducted by the staffs of the committees revealed many other failures to properly administer export controls, such as favoritism shown in the granting of licenses and instances of the use of private mail boxes by a certain licensing officer to which a select few could forward their applications and thus receive special attention. Other instances of private correspondence

between licensing officers and exporters and hand processing of applications where expeditors were employed were also found. There were still other instances where personal friendship between the licensing officer and the exporter led to favoritism in the granting of licenses. All of these facts led to a general dissatisfaction with the export control program by those in the trade which could have been prevented by a strict enforcement policy.

The irregularities in export controls which were disclosed as a result of the committees' hearings and investigation have been referred to the Department of Justice in order that appropriate action may be taken in those cases involving possible criminal violations. It is believed that the vigorous prosecution of criminal violations of export controls will act as a deterrent to possible future violators.

RECOMMENDATIONS AND CONCLUSIONS

1. Failure to accomplish the economic and political purposes of our present control program can have harmful effects upon our domestic economy and national security. Prior to the initiation of this investigation the Office of International Trade, which is primarily responsible for the administration of the export control program, approached the problems involved with a marked lack of vigor and foresight.

2. Some of the most serious delinquencies in the program resulted from the almost complete ineffectiveness of the compliance activities of the Office of International Trade. In the past flagrant violations of our export regulations, both in and out of Government, were undermining the entire export-control program. The prompt and effective enforcement of export regulations is essential if the program is to succeed.

3. The recent expansion of the compliance staff of the Office of International Trade, together with the adoption of safety paper licenses and other recently adopted measures, should materially reduce the number of violations of export regulations. It is, however, recommended that the present domestic and foreign compliance staff be brought up to its full strength without further delay. It is also suggested that serious consideration be given to removing the Compliance Unit out of the operational level in the Office of International Trade and making it directly responsible to the Director of that agency. It is believed that such a change will give the Compliance Unit added independence and freedom of action which will be more conducive to the conduct of thorough and unrestricted investigations at all levels within the Office of International Trade as well as outside of that organization.

4. The present methods and procedures for the granting of export licenses appear to vary widely with the different commodity groups and licensing officers. Definite standards should be set up and followed in the granting and denial of licenses by the licensing officers. These standards should be sufficiently clear and adequately publicized in the export trade so that the average businessman may understand how, when, and under what conditions he may reasonably expect to receive approval of his license applications. The application of such standards should greatly reduce the possibilities of favoritism and correct many inequities resulting from the present licensing system.

5. For the purpose of eliminating disreputable and dishonest exporters consideration should be given to establishing an approved list of exporters in the Office of International Trade. Individuals and firms desiring to be considered for the approved list should be required to file a registration statement setting forth detailed information concerning themselves or the firms they represent. It is believed that the great majority of exporters, who are reputable businessmen, will welcome this opportunity to remove undesirables from the export field.

6. If the export control program is to be operated efficiently, it is not only necessary to initiate and maintain effective licensing procedures and practices, but these procedures and practices must continually be reviewed with a view to making revisions in the light of changing conditions. In this way current delinquencies in export controls can be promptly discovered and corrected and many of the fraudulent practices which tend to crop up in connection with this program can be prevented.

7. Destination control to prevent the unauthorized diversion, transshipment, or end use of export commodities once such commodities have left our ports presents one of the most difficult problems in the export control program. Until very recently little or no attention was given to this problem with the result that it is quite possible that many of the commodities which were specifically licensed for one country were diverted or transshipped to another.

8. Delay and procrastination by the Office of International Trade in solving the problem of destination control cannot be tolerated. Banks, freight forwarders, and other private business firms engaged in various phases of the export trade can materially assist in this program by furnishing information to the Office of International Trade concerning violations which come to their attention in the ordinary course of business. If these private business firms fail to render voluntary cooperation in these matters the Office of International Trade should consider promulgating regulations which will require them to furnish such information. It is also contemplated that the Economic Cooperation Administration and the Foreign Service can render valuable assistance in the handling of the problems of destination control abroad. It is imperative that the Office of International Trade work out prompt and effective arrangements with these agencies for such assistance as they can render.

9. Within the past few months the Office of International Trade has taken a more realistic approach to the problems of export control. It has sought to strengthen the program by promulgating new regulations and by revamping its own organization. However, there is still considerable room for improvement before the export control program attains the over-all efficiency necessary to make it adequately effective. Under these circumstances and in view of the vital importance of the program it is believed that this subcommittee, after a 3-month period, should make further inquiries to determine what progress has been made by the Office of International Trade in correcting existing deficiencies and to ascertain whether the program is then operating effectively.